



Department of Justice

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**DEPARTMENT OF JUSTICE ANTITRUST DIVISION ISSUES STATEMENT ON THE
CLOSING OF ITS INVESTIGATION OF
ARCH WIRELESS' ACQUISITION OF METROCALL HOLDINGS**

***Investigation Focused on Whether Merger of Two Paging Carriers Would
Create Market Power***

WASHINGTON, D.C. – The Department of Justice's Antitrust Division issued the following statement today after the Department announced the closing of its antitrust investigation into Arch Wireless Inc.'s proposed acquisition of Metrocall Holdings Inc.:

"The facts did not support a conclusion that this merger will give a combined Arch/Metrocall market power in the markets in which they compete. Purchasers of paging services will likely continue to have a number of other choices after the merger, including other paging carriers. Although this particular transaction should not threaten to harm competition or consumers, we will continue to be vigilant in our enforcement of the antitrust laws in this area.

"There has been a substantial decrease in the number of pager units in service over the past five years, declining from more than 45 million units in 1999 to under 12 million today. Therefore, the Division focused its investigation on customers that may continue to need to use pagers. None of the theories of competitive harm considered was supported by the facts. The Division found neither likely harm from coordinated interaction nor substantive proof of potential unilateral effects post-merger. The services of other paging carriers and self-provisioning of pager services by customers provide alternatives to the paging services of the merging parties. In addition, new wireless technologies such as wi-fi should continue to broaden the alternatives available to customers of the merging parties."

(Background information is attached.)

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BACKGROUND TO CLOSING OF INVESTIGATION OF PROPOSED ACQUISITION BY ARCH WIRELESS OF METROCALL HOLDINGS

The Antitrust Division of the Department of Justice recently closed its investigation of the proposed acquisition by Arch Wireless, Inc. ("Arch") of Metrocall Holdings, Inc. ("Metrocall"). Arch is the largest provider of paging services in the country, with approximately 37 percent of all pager units in service. Metrocall is the second largest nationally with an approximate 30 percent share. Under their agreement, Arch shareholders would control 72.5 percent of the merged firm. The announced purchase price was \$275 million.

The Antitrust Division began investigating the proposed transaction soon after it was publicly announced on March 29, 2004. The Division has obtained substantial information from Arch and Metrocall and third parties. The Division interviewed over one hundred industry participants, including paging competitors, customers, suppliers of equipment to customers that want to provide their own paging systems, and providers of other technologies that may provide substitutes for paging services.

The Division's review focused on the proposed merger's potential effects on the sale of paging services to business customers.

Sale of Paging Services

Paging is a declining industry. Over the past five years the number of units in service has declined from over 45 million to under 12 million. Several participants in this business have gone through bankruptcy, and substantial consolidation has occurred. There are in addition to Arch and Metrocall other firms that provide paging services nationwide and a large number of firms that provide services on a regional or local basis.

In its investigation the Division focused on the sale of one-way paging services. One-way paging is significantly less expensive than two-way service. Although both of the parties offer two-way service, this represented a small percentage of their sales. Use of two-way service has declined rapidly, due to substantial competition from other similarly-priced technologies such as mobile wireless telephony.

In analyzing one-way paging, the Division determined that customers only buy services from providers that have networks with the ability to provide service in their local or regional area, and that the mix of competitors varies from area to area. Over 90 percent of paging coverage purchased is local or regional. Therefore, the Division focused its investigation on local markets, examining the extent to which Metrocall and Arch compete for the sale of paging services in the many metropolitan statistical areas throughout the U.S. Based on this investigation, it appears that, in local and regional markets, the combined firm would have market shares ranging from under 15 percent to over 80 percent.

The evidence showed that in recent years many paging customers have replaced their paging units with other common technologies, such as cellular or PCS telephony. Therefore, the Division focused its investigation on those customers who, for technical or business reasons, were less likely to switch to a mobile wireless telephony service. For example, the Division interviewed many hospital customers, which typically require a wireless means of transmitting messages that will not create any radio frequency interference with medical equipment, and will have greater network reliability (especially in crisis situations), longer battery life, and better building penetration, factors that may lead customers to favor pagers over cellular and PCS telephones.

The Division concluded that the merger likely would not substantially lessen competition in any relevant market. Harm from coordinated interaction appears unlikely due to the differentiated nature of paging services, the large number of factors a supplier considers in determining the price for each customer, the different levels of services provided (including time for replacement of lost or broken units and placing of transmitters), and differences across paging firms.

The Division also concluded that harm from unilateral conduct by the merged firm is also unlikely, despite the parties' large combined market share. Arch/Metrocall will have a number of viable competitors post-merger: several other national or superregional paging providers and many smaller regional competitors that currently compete for and serve the paging needs of customers, including hospitals. Many customers consider these other providers to be attractive alternatives to using Arch or Metrocall. In addition, many paging users provide their own systems for all or part of their paging needs. Finally, some former paging customers have begun to use emerging technologies, such as wireless local area networks to meet their local paging needs; as the quality of these services improves and their cost declines, these may become increasingly attractive to users.

The Division provides this statement pursuant to its policy on the issuance of investigation closing statements. This statement is limited by the Division's obligation to protect the confidentiality of certain information obtained in its investigations. As in most of its investigations, the Division's evaluation of this matter has been highly fact-specific, and many of the relevant underlying facts are not public. Consequently, readers should not draw overly broad conclusions regarding how the Division is likely to analyze other collaborations or activities, or transactions involving particular firms. This statement does not bind the Division in any future enforcement action. The Division's statement on issuance of closing statements is available at:
<http://www.usdoj.gov/atr/public/guidelines/201888.htm>.